DECLASSIFIED EXCISE Pkt 14 Libya (E) XR Pkt 17-1 Sp-Libya

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394 Pkt 6 Libya FSE 9 Libya

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ACTION AF-18

INFO OCT-01 EUR-20 OEP-01 CIAE-00 DODE-00 PM-05 H-02
INR-08 L-04 NSAE-00 NSC-10 P-03 RSC-01 PRS-01 SS-20
USIA-12 AID-28 E-15 COM-08 INT-06 TRSY-11 RSR-01 /175 W
091479

R 270740Z NOV 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 7156
INFO USINT ALGIERS
AMEMBASSY BENGHAZI
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY PARIS
AMEMBASSY ROME

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY cf DATE 8/7/81
PORTIONS DENIED AS INDICATED

C O N F I D E N T I A L TRIPOLI 2765

SUBJ: ESSO'S LNG NEGOTIATIONS

REF: TRIPOLI 2483 Pkt 17-1 Sp-Libya Pkt 17-1 Sp-Libya (2)

1. DURING MONTH WHICH HAS PASSED SINCE OUR LAST REPORT, REFTEL, ESSO HAS CONTINUED TO NEGOTIATE WITH LARG FOR AGREEMENT ON WHAT AMOUNTS TO TAX REFERENCE (TRANSFER) PRICE FOR LNG SO THAT IT MAY BEGIN SHIPMENTS. ESSO'S TACTIC HAS BEEN TO TRY TO CONVINCE LARG THAT CAPITAL AND OPERATING COSTS OF PROJECT, WHEN COMPARED WITH ITS SALES CONTRACTS FOR LNG, PRECLUDE AGREEING TO LARG'S MOST RECENT DEMAND FOR TRANSFER PRICE OF 47 CENTS PER MILLION BTU, DOWN SUBSTANTIALLY FROM INITIAL DEMAND OF 77 CENTS, TO JUSTIFY ITS POSITION. ESSO SAYS IT HAS COMPLETELY DISCLOSED PROJECT'S COST AND REVENUE FACTORS TO LARG. LARG'S REJOINDER HAS BEEN, "GET MORE FROM YOUR ITALIAN AND SPANISH CUSTOMERS." CUSTOMERS THEMSELVES SENT REPRESENTATIVES TO TRIPOLI IN LATE OCTOBER TO EXPLAIN ECONOMIC FACTS OF THEIR MARKET SITUATIONS TO LARG.

2. THESE EFFORTS HAVE HAD SOME EFFECT BUT HAVE NOT FULLY CONVINCED LARG IT HAS GOTTEN ALL THAT IT MIGHT. IN ATTEMPT TO FINALLY SECURE RIGHT TO EXPORT,

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3. LATEST ESSO OFFER WAS EXAMINED AT LENGTH ON NOV 22 BY LARG NEGOTIATORS, HEADED BY DEPPRIMIN JALLUD AND INCLUDING MAGHRABI. ESSO REPORTS LARG FOUND OFFER INTERESTING BUT STILL INSISTS THAT IT BE IMPROVED - WE GATHER THROUGH SHAVING 3 CENTS FROM FREIGHT RATES TO BE CHARGED BY ESSO TRANSPORTATION SUBSIDIARY OR BY EQUIVALENT ADDITIONAL INCREASE IN TRANSFER PRICE. ESSO ESTIMATES THAT YIELDING WHAT LIBYANS NOW SAY THEY WANT WOULD REDUCE RATE OF RETURN TO ABOUT 11 1/2 PERCENT OVER 20 YEARS.

4. NEGOTIATIONS RECESSED WITHOUT ULTIMATUM OR DEADLINE FROM LARG. PRESUMABLY, THEY WILL RESUME IN DECEMBER AFTER EID HOLIDAY.

5. ESSO SAYS IT BELIEVES LARG NEGOTIATORS NOW ARE SATISFIED THAT COMPANY WILL NOT REAP EXTRAVAGANT PROFITS FROM LNG PROJECT AND THAT - UNLIKE CRUDE OIL SITUATION - IT CANNOT PASS HIGHER PAYMENTS TO LARG ON GAS EXPORTS ON TO CONSUMERS.

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6. COMMENT: ESSO WOULD NOT COMMENT ON WHAT ITS NEXT MOVE IS LIKELY TO BE.

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WHILE WE HAD SUSPECTED THAT PARTICIPATION MIGHT BE LARG OBJECTIVE, WE ARE NOT CERTAIN WHETHER INCENTIVE WAS TAKEN BY LARG OR ESSO.

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